



# CBI Product Factsheet: Finance and Accounting in the UK

## 'Practical market insights concerning your product'

The UK market for finance and accounting (F&A) outsourcing is the largest in the EU, and nearshoring and offshoring are practised widely. 93% of UK companies expect to outsource either the same amount of F&A services or more in the near future. Even though almost all horizontal and vertical markets offer good opportunities for (F&A) service providers from developing countries (DCs), industry experts indicate the importance of being distinctive by specialising in F&A services for a specific industry. The most commonly outsourced services within F&A are payroll accounting, accounts payable and accounts receivable.

### Introduction

This product factsheet focusses on the UK. This is not only because the UK was one of the first countries to adopt F&A outsourcing, but also because it has the largest F&A outsourcing market within the EU. Owing to the maturity of the UK F&A outsourcing market and to advanced technologies such as cloud computing, it has become easier and more secure for UK companies to send F&A services nearshore or offshore at rates far lower than they would pay in the UK.



### Product Definition

F&A services can be divided into two types of process: transactional-intensive processes, e.g. accounts payable/receivable and knowledge-intensive processes, e.g. budgeting (Table 1). These processes are sometimes also referred to as lower value-added processes and higher value-added processes.

**Table 1: Division of processes within finance and accounting services**

| Examples of transactional-intensive processes (lower value-added) | Examples of knowledge-intensive processes (higher value-added) |
|---|--|
| Accounts payable  | Budgeting/forecasting  |
| Accounts receivable   | Capital budgeting  |
| General accounting  | Internal audit   |
| Payroll   | Management reporting and analysis                              |
| Fixed assets  | Regulatory reporting and compliance                            |
| Tax preparation   | Treasury and risk management                                   |

Source: Everest Research Institute

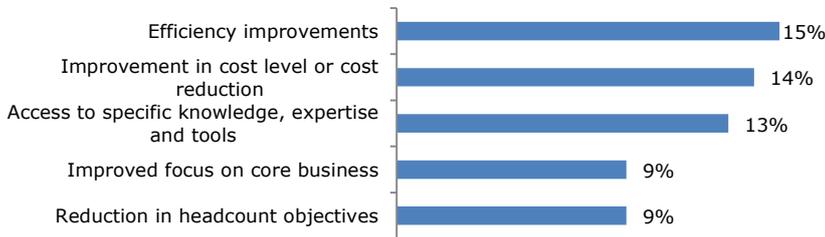
*Finance & accounting outsourcing*

F&A services can be kept within a company (in-house) or can be outsourced, which means that they are delegated to external service providers. Outsourcing can take place:

- Onshore: to providers within the same country (onshoring).
- Nearshore: to foreign providers within the region (nearshoring): e.g. Central and Eastern European countries and North African countries for Western Europe, and Canada and Mexico for the United States.
- Offshore: to foreign providers outside the region, typically overseas (offshoring): e.g. Asian and Latin American countries for Western Europe, and Africa and Asia for the United States.

**Product Specifications**

**Figure 1: Top 5 reasons for outsourcing IT or business processes in the UK, in %, in 2013**



Source: Ernest & Young (EY)

- **Efficiency improvements:** improved efficiency is very important for companies in the UK wishing to outsource F&A processes (Figure 1). According to a study by Ovum and Ernst & Young, companies want to know what their outsourcing providers can do to make their processes and technology run more efficiently. Many UK companies are hoping that outsourcing their F&A processes will improve efficiency in their companies.

**CFA<sup>1</sup>:** Explain how your F&A services can achieve efficiency improvements.

- **Price:** for BPO buyers in the UK, improving the cost level, or cost reduction, is the second main reason for outsourcing business processes according to research by EY in 2013 (Figure 1). Not only does this include lower (labour) costs in outsourcing countries, but also the improvement of financial performance by improving the effectiveness of F&A processes. In fact, industry experts are noticing a trend in which F&A processes are increasingly perceived as a way of improving financial performance. When it comes to price models, outcome-based Business Process Outsourcing (BPO) is becoming mainstream. Outcome-based business process services are expected to become the most commonly used price model, as UK companies are seeking to minimise upfront costs and ensure maximum accountability from their providers. Per transaction pricing and per process per month pricing are also popular.

<sup>1</sup> Consideration for Action

**CFA:** Focus on competitive pricing while maintaining high-quality services.

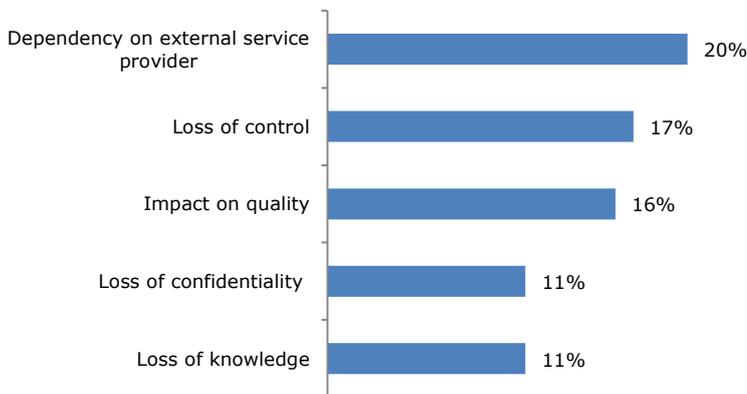
**CFA:** When focussing on companies, maintain an outcome-based pricing model. For the UK public sector, payment-by-result is more common.

- **Added value:** UK buyers of F&A services are increasingly looking for more tactical support and providers that can bring new services and solutions (Figure 1). For example, added value might include analytical services: if an F&A service provider handles a company’s expenses administration, the provider can add value to this service by adding analytical services: who is spending the most in relative terms?; where could purchases be made more cheaply?; where do most expenses go, and could cost be reduced by changing the policy for expenses? UK companies that are considering the outsourcing of their F&A services are turning to outsourcers with greater expertise and technological resources than they have in-house. Increasingly, companies are looking for end-to-end F&A capabilities from outsourcers.

**CFA:** Try to find your company’s competitive edge and, further to that, define the added value that your company has to offer to a potential customer. Spend time and energy on properly uncovering why your company is different and better, and then make it part of how you communicate, what you communicate and how you shape customer relationships.

- **Focus on core competence:** focussing on core competences is another important reason for UK companies to outsource their F&A processes. They believe that outsourcing these processes will enable the company to enjoy continuous improvement of its F&A processes, leaving the company itself able to focus on its core competencies.

**Figure 2: Top 5 risks for outsourcing IT or business processes according to companies in the UK, in %, in 2013**



Source: Ernest & Young (EY)

- **Data security:** data security and the related potential loss of confidential data are seen by UK companies as among the greatest risks when outsourcing IT or business processes (Figure 2). With regard to the outsourcing of F&A processes, it is in fact one of the main concerns for UK companies, as these services generally contain highly sensitive data. UK companies expect data to be secure with their providers and expect their providers to be discrete and comply with full confidentiality. Data security is often perceived as being of inferior quality in offshore DC locations when compared with onshore or even nearshore locations.

**CFA:** Ensure you have a solid security/privacy culture, dependable technology and reliable processes, and try to get certifications for this. Be transparent by offering insights into your data security/privacy measures. Furthermore, take

pre-emptive measures to address the concerns of UK companies regarding F&A services by reflecting your awareness and experience and by enhancing trust in your company. Finally, ensure continued compliance and compliance reporting.

- **Working hours:** many F&A offshoring locations are in time zones far removed from Greenwich Mean Time. This means that for working hours to coincide, people on one or both sides have to work during off-hours. In the UK, working hours are considered very important and few people like to work during off-hours on a regular basis. This can be a reason for UK companies not to outsource F&A services to companies in a distant time zone.

**CFA:** Consider adjusting your working hours to meet those of UK companies.

- **English language skills:** providing F&A services for the UK market requires good English-language skills. If English-language proficiency in your company is insufficient, the opportunities open to you in the UK market will be very limited.

**CFA:** Ensure that you have competent English-speaking staff in your company.

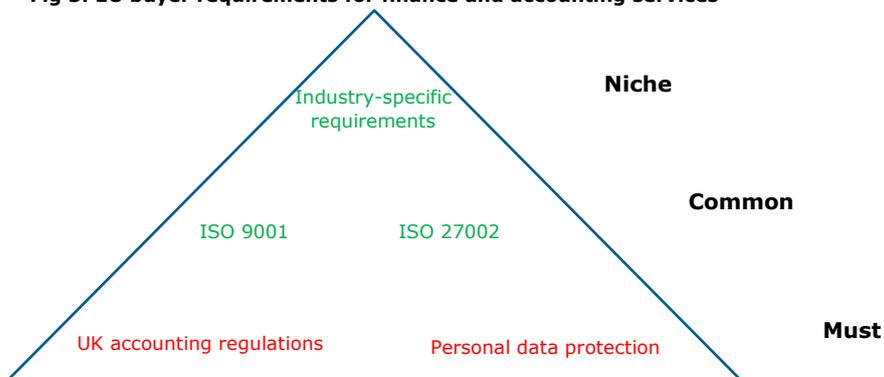
### Buyer requirements

Buyer requirements can be divided into:

1. **Must:** requirements you must meet to enter the market: e.g. legal requirements.
2. **Common:** requirements you need to comply with to keep up with the market.
3. **Niche:** requirements for specific segments.

Figure 3 gives an overview of EU buyer requirements for F&A services.

**Fig 3: EU buyer requirements for finance and accounting services**



#### Must

- **National accounting regulations:** each country has specific regulations on F&A. F&A service providers wishing to target the UK market must be familiar with and understand these regulations. You can find an overview of UK accounting standards, and information on how to obtain them, at: <http://www.icaew.com>.

**CFA:** Study the accounting rules in the UK. The ICAEW website is a good starting point that provides up-to-date information on and background knowledge of the UK accounting market.

- **Personal data protection in electronic communications:** the EU regulates the protection of individuals with regard to the processing of personal data and the free movement of such data. Providers of technical services regarding electronic communications to EU companies have to take into account EU legislation on personal data protection (Directive 2002/58/EC and 95/46/EC).

**CFA:** Providers outside the EU can be held responsible for violations of EU data protection requirements. Therefore, it is important that you comply with EU legislation on personal data protection. Refer to [EU legislation: Personal data protection in electronic communications](#) for more information.

#### Common

- **ISO 27002:** ISO 27002 is the standard governing information security and management. It provides the industry-approved model for an Information Security Management System (ISMS) and addresses the confidentiality, integrity and availability of information within an organisation.

**CFA:** As data security is a major challenge in F&A, adopting the ISO27002 standard is strongly recommended for providers of such services. Refer to <http://www.27000.org> for more information on the 27002 standard.

- **ISO 9001:** ISO 9001 is an important standard for service providers. The ISO 9001 standard represents requirements for the development and implementation of quality management systems in an organisation.

**CFA:** ISO 9001 is one of the best-known quality standards among UK companies. Applying for ISO 9001 is therefore recommended. Refer to the [ISO](#) website for more information.

#### Niche

- **Industry-specific requirements:** there are also industry-specific certifications or best practices that can be even more important than the above-mentioned general standards/certifications. Examples are [Basel II and III](#) for the finance and banking industry, [HL7](#) and [HIPAA](#) for the healthcare industry or [PCI DSS](#) for the payment card industry.

**CFA:** If you provide F&A services for a specific industry, research the availability of industry-specific certifications/standards and consider applying for them. However, this has to be researched according to the industry. Industry associations can be a good starting point to look for them.

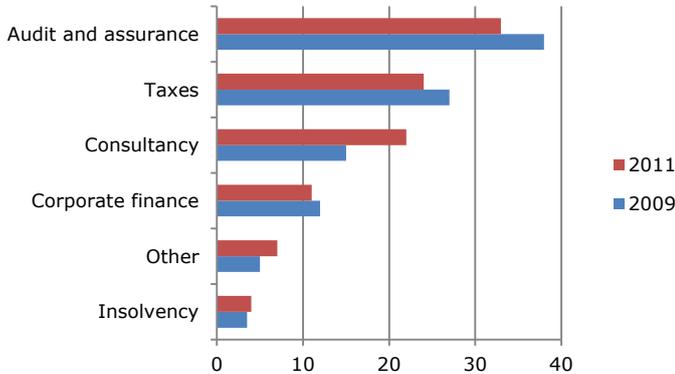
For information on BPO buyer requirements in the EU market in general, refer to CBI's 'EU Buyer Requirements' for BPO.

### Trade and Macro-Economic Statistics

- **UK is largest BPO market in Europe:** the UK BPO market is not only among the largest in Europe, it is also expected to be the fastest growing in 2014. This increased growth is being driven by both private and public organisations. F&A is one of the fastest growing BPO segments in the UK, particularly with regard to police and welfare administration.

**CFA:** Research the F&A market in the UK to make optimum adjustments to what you have to offer. For example: study the websites of F&A service providers to gain insights into buyer requirements and current offerings. Check the websites of trade associations and magazines to gain insights into market trends and developments. Attend relevant industry events to talk to potential buyers and to find out their needs.

**Figure 4: Work spheres of the 20 largest UK F&A companies, in 2009 and 2011, in %**



Source: IFSL research (2012)

- Types of F&A service:** F&A companies supply a wide range of services. Figure 4 not only indicates the F&A services of greatest significance in the UK, but also indicates the spheres in which you will be faced with competition from large players. This information can help you choose the types of F&A service on which to focus. The greatest growth between 2009 and 2011 took place in F&A consultancy. Industry experts indicate that this growth has continued since then, and it is becoming one of the most important F&A outsourcing areas. Analytics is also expected to provide opportunities of interest to F&A service providers, as UK companies are looking for ways to use their F&A data to optimise their business decisions.

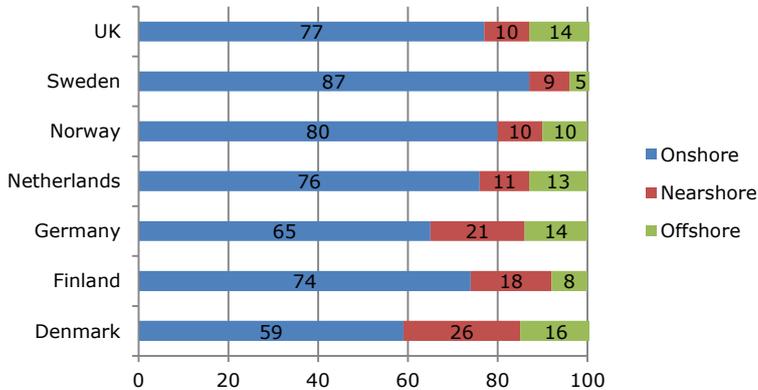
**CFA:** Carefully select your focus F&A area. The area showing greatest growth may offer good opportunities, but only if your company is capable of offering such services at high level of quality.

**CFA:** Consider offering F&A analytic services. However, this is recommended only for providers in long-term BPO deals or with expertise in industry-focused data analysis, knowledge services, and risk and compliance.

- Opportunities in almost all horizontal and vertical markets:** even though there are opportunities in almost all horizontal and vertical markets, F&A service providers are advised to focus on services for a specific industry in order to remain competitive. This is because verticalisation of F&A services for a specific industry has become an important trend in the UK as a result of a maturing market. UK buyers have become more demanding in their requirements of outsourcing providers – specifically with regard to industry knowledge – and prefer providers that specialise in a specific industry rather than providers that offer services for all manner of industry. In order to increase their value proposition, many F&A service providers are already specialists in industry-specific services. Additionally, government BPO is another focus market of potential interest. It is a substantial market in the UK and is worth over €7.6 billion annually according to Nelson Hall. In this market, outsourcing is driven by the need to cut public spending.

**CFA:** Choose a focus industry to increase your opportunities.

**Figure 5: Location of outsourced services by country, in %, in 2013**



Source: *Outsourcing in Europe by EY, 2013*

- Onshoring preferred:** onshoring is the preferred outsourcing method for UK companies (Figure 5). Offshoring ranks second. This is probably because of the great popularity of India as an offshoring destination for UK companies owing to historical ties. The Philippines and China are also popular offshoring destinations. With regard to nearshoring, Eastern European destinations such as Ukraine, Lithuania, Hungary, Romania, Bulgaria and Poland are popular according to the Central and Eastern European Outsourcing Association (CEEEOA). Although this information represents the BPO market as a whole, industry experts indicate that the results are not very different for F&A outsourcing in particular.
- More outsourcing predicted:** of all the countries mentioned in Figure 5, the UK was among the countries where outsourcing was expected to increase most (together with Finland). 65% of UK companies expect outsourcing to stay the same, and 28% expect to outsource more. Only 7% expect to outsource less over the coming years. According to industry experts, when it comes to F&A outsourcing in the UK, the percentages are even higher. This is because F&A is an established sector in the UK and it was one of the first business processes that UK companies outsourced. Research by Ovum indicates that the most commonly outsourced services within F&A are payroll accounting, accounts payable and accounts receivable.

## Market Trends

### Technological drivers

- Cloud computing:** UK end-users of F&A services are increasingly focussing on integrating their F&A processes and making them available online, e.g. by adopting cloud computing. Therefore, they are increasingly asking their F&A service providers to connect (interface) their systems electronically to their own platform and to offer their services as a web-based service. Online service provisioning makes the distance to the EU market less important, which increases the opportunities for DC F&A providers.

**CFA:** Focus on offering web-based F&A services. Invest in technology, as you need to have a solid, secure and reliable infrastructure if you want to offer web-based F&A services.

**CFA:** Consider using your customer's infrastructure, as this is increasingly required by UK companies.

### Economic market drivers

- **Financial crisis and intelligence economy requiring cost reduction opportunities:** the ability to manage F&A processes more efficiently has enabled UK companies to reduce costs, make better strategic decisions and simplify work processes. This trend is set to continue in the near future as UK companies continue to look for ways to rationalise their activities and thus save costs.

**CFA:** Provide examples of how companies have generated cost savings by outsourcing F&A processes and by implementing new ways of managing these F&A processes.

For information on BPO market trends in the EU market in general, refer to CBI's 'Trends' for BPO.

### Market Channels and Segments

There are various market-entry strategies that you can use to enter the UK F&A market. European industry experts identify subcontracting by UK F&A service providers as the most realistic entry channel for service providers from DCs, as subcontractors have a good knowledge of the local market, already have a network of customers and the up-front capital investment for the DC provider is relatively low. You can either approach these providers yourself or through an intermediary, such as a consultant/matchmaker or a sales/marketing representative. If you already have experience in the UK market, you could try to approach end-users of F&A services directly. Remember that there is no silver bullet when selecting a market-entry channel. It is important to look at your own company and determine which approach works best for you.

- **Subcontracting by UK F&A companies:** subcontracting means that UK F&A companies subcontract to other parties the work that has been contracted to them by end-user companies. These UK F&A companies can seek out opportunities to subcontract part of their work to DC F&A service providers.

**CFA:** Attend relevant industry events in the UK to meet potential partners. Furthermore, you will also learn more about their business culture.

**CFA:** Have good promotional material available, such as a professional company website and leaflet. Also invest in Search Engine Marketing so that potential customers are able to find your company online.

**CFA:** Target F&A companies whose size is in line with your own capacity. Focus on companies that serve the same horizontal or vertical market as your company to increase your chances of finding a potential match.

- **Intermediaries:** out of all Western European countries, it is companies in the UK that make the most use of external decision-making support when outsourcing BPO. In 50% of all BPO contracts, UK companies employed external support in the form of consultants or matchmakers. According to Ernst & Young research, UK companies asked for external support for the following reasons: to gain an independent view on clients' outsourcing initiatives (24%), to gain expertise and experience in the outsourcing market (21%), to gain expertise and experience on how to approach outsourcing (19%), to improve the quality of the decision-making process (16%), to reduce risk (15%), to make efficiency improvements (4%) and 'other' (1%).

**CFA:** Consider using intermediaries to come into contact with potential UK customers, as a local contact is always an advantage, especially for DC providers that are new in the UK market and/or are located in less familiar BPO destinations. Furthermore, intermediaries generally have a clear understanding of local markets, insights into buyer requirements and large networks. If you choose to work with an intermediary, review the following selection criteria:

expertise (should be in line with your services or vertical market expertise), value and size of network, and references.

- **Direct sales to end-users:** selling your F&A services without any intermediaries is becoming more widespread. Therefore, direct sales to UK end-users of F&A services can also be a market channel of interest to DC F&A service providers. UK companies are very open to international partnerships that can enhance the opportunity of direct sales. However, you need to have profound end-market knowledge.

**CFA:** Research the end-market segment that you want to focus on in order to understand how to market your company effectively.

**CFA:** Target end-users whose company size is in line with your company's capacity.

You can also look for F&A companies by using search engines such as Google. In an advanced search, narrow your domain to the national extension for the UK: '.co.uk'.

Trade associations, trade events and databases can be good sources to help you find potential customers in the UK. Examples of such sources are:

- Accountex - <http://www.accountex.co.uk> - national accountancy and finance exhibition and conference, held annually in May in London.
- Association of Practising Accountants (APA) - <http://www.apa-uk.co.uk> - UK association of medium-sized companies of chartered accountants.
- Institute of Chartered Accountants (ICAEW) - <http://www.icaew.com> - professional membership organisation for chartered accountants.
- National Outsourcing Association (NOA) - <http://www.noa.co.uk> - UK outsourcing association. Go to 'Membership' and select 'Directory' for an overview of members.
- Gartner Business Process Management Summit - <http://www.gartner.com/technology/summits/emea/business-process> - conference on practical guidelines and strategic advice on business process management held annually in March in London.
- UK 200group - <http://www.uk200group.co.uk> - association of independent chartered accountants, legal companies and international associates.

For information on BPO market channels and segments in the EU market in general, refer to CBI's 'Trade Channels and Segments' for BPO.

## Price

Price is the main reason why companies in the UK consider outsourcing F&A to companies in DCs. Given that salaries form a large share of the costs of F&A processes, great savings can be made by outsourcing such processes to countries with lower wages. The average annual salary for F&A jobs in the UK lies between €23,000 and €50,000. Salary levels in nearshore/offshore destinations are usually significantly lower. However, the price of F&A services has declined slightly over the past few years. This is mainly due to atomisation of F&A services and increased market competition.

## Field of competition

Refer to CBI's 'Field of Competition' for BPO, as competition in the UK F&A outsourcing market is based on the same aspects as competition in the BPO market in general.

## Main sources

- AccountancyAge - <http://www.accountancyage.com> - online magazine about the UK accounting industry.

- Accounting web - <http://www.accountingweb.co.uk> - UK accounting portal.
- Outsource Magazine - <http://www.outsourcemagazine.co.uk> - UK outsourcing magazine. They have a special 'Finance and Accounting' section.
- Sourcingfocus - <http://www.sourcingfocus.com> - UK sourcing industry portal.
- TheCity - <http://www.thecityuk.com> - publishes reports on UK financial services and the UK accounting industry.

For all CBI's BPO-related market intelligence documents, go to CBI's '[Market Intelligence Platform for BPO](#)'.

This survey was compiled for CBI by Facts Figures Future in collaboration with CBI sector expert Harry van Geijn

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